

RatingsDirect®

Rating Raised On NorthStar Education Finance Inc.'s Series 2011-A-L To 'AA (sf)' From 'A (sf)'

Primary Credit Analyst:

Ronald G Burt, New York (1) 212-438-4011; ronald.burt@standardandpoors.com

Analytical Manager, Term ABS:

Frank J Trick, New York (1) 212-438-1108; frank.trick@standardandpoors.com

OVERVIEW

- NorthStar Education Finance Inc.'s term credit facility series 2011-A-L is backed by a pool of private student loans originated under its Total Higher Education Loan Program.
- We raised our rating to 'AA (sf)' and removed it from CreditWatch positive to reflect our view that the collateral performance and growth in hard credit enhancement are sufficient to support a higher rating.

NEW YORK (Standard & Poor's) Nov. 16, 2015--Standard & Poor's Ratings Services today raised its rating on NorthStar Education Finance Inc.'s (NorthStar's) term credit facility series 2011-A-L to 'AA (sf)' from 'A (sf)'. At the same time we removed this rating from CreditWatch, where we placed it with positive implications on Sept. 3, 2015. The term credit facility is backed by private student loans issued by NorthStar Education Finance Inc.

The upgrade reflects the student loan pool's strong credit profile and performance to date, as well as our view that the growth in the credit enhancement available to support the credit facility is sufficient for a higher rating. Our analysis also incorporated secondary credit factors, such as credit stability, structural features, and sector- and issuer-specific analysis.

CURRENT CAPITAL STRUCTURE

As of September 2015

Current

Note

Maturity

Rating Raised On NorthStar Education Finance Inc.'s Series 2011-A-L To 'AA (sf)' From 'A (sf)'

Class	balance (\$)	factor (%)	Coupon (%)	date
2011-A-L	11,775,040	62.8	1ML + 4.0	Oct. 2034
1ML--One-month LIBOR.				

KEY STRUCTURAL FEATURES

The transaction has a full turbo feature. After paying fees, expenses, and interest, as well as restoring the reserve fund balance if necessary, it then pays any remaining amounts as principal on the credit facility's balance until it is paid in full.

COLLATERAL SUMMARY

	As of September			
	2015	2014	2013	2012
% of current pool				
Repayment (current)	92.7	87.9	81.9	73.2
Repayment (30+ days DQ)	2.7	2.5	3.0	2.5
Deferment	4.1	7.7	10.7	12.2
Forbearance	0.2	0.8	0.8	0.8
In school/grace	0.3	1.0	3.7	11.2
% of initial pool				
Cumulative defaults	2.2	1.8	1.5	1.2
Cumulative net loss	2.1	1.7	1.5	1.2

DQ--Delinquent.

The loan pool has a relatively strong credit profile, as the low percentages of non-paying loans and low cumulative net losses demonstrate. NorthStar marketed the loans in this pool primarily to borrowers seeking graduate professional degrees at schools with low student borrower loan default rates and a history of high starting salaries relative to the average student debt load. As of the June 2015 servicer report, 92% of the loans were to graduate students, and 76% of the loans were to obligors in medical programs, which typically have lower expected default rates. In addition, 85% of the obligors have FICO scores above 680.

CREDIT ENHANCEMENT

As of September	2015	2014	2013	2012
Parity (%)	160.0	153.3	148.0	144.9

The credit facility benefits from a reserve fund that must be maintained at 0.5% of the initial pool. Credit enhancement has grown since inception due to the transaction's full turbo feature and the high initial overcollateralization yielding positive excess spread, despite the transaction's relative high cost of funds.

CASH FLOW MODELING ASSUMPTIONS

Based on our view of the current and projected performance of the pool of private student loans, our expected cumulative default range remains the same as our our initial base case of 6.5%-7.0% of the initial pool balance. Additionally, our expected recovery rate on defaulted loans remains the same as our initial base case of 20%, which, after considering cumulative net losses to date, results in our base case expectation for remaining cumulative

net losses of 5.0%-5.6% of the current pool balance. Our view for this transaction also considers the performance of NorthStar's 2006-A bond issuance, which has a similar loan pool but is more seasoned. As of September 2015, the series 2006-A trust has cumulative defaults of approximately 6% of the initial pool balance, and net recoveries of approximately 16% of cumulative defaulted loans.

We ran break-even cash flows at various stress assumptions to test the transaction's ability to receive timely interest and principal no later than legal final maturity. The following are some of the major assumptions we modeled:

- Five-year straight-line default curves and eight-year moderately front-loaded default curves;
- Stressed recovery rates in the 10.0%-12.5% range received over eight years;
- Prepayment speeds of both 2% flat for the remaining life of the transaction and starting at approximately 3% constant prepayment rate (CPR)--an annualized prepayment speed stated as a percentage of the current loan balance--and ramping up 1% per year to an 8% maximum CPR. We held the applicable maximum rate constant for the remainder of the transaction's life;
- Forbearance rates of 1.0% for 12 months;
- Deferment rates of 13.0% for 24 months; and
- Stressed interest rate vectors at the 'AA' rating category.

RATING ACTION RATIONALE

Based on our cash flow runs, the credit facility could absorb remaining cumulative net losses of 24.2% to 32.6% before a payment default would occur in our 'AA' stress scenarios. After considering the aforementioned break-evens and remaining expected net losses, we raised the rating on the credit facility to 'AA (sf)' to reflect our view of the transaction's collateral performance to date, the improvement in hard credit enhancement since our last review, and the break-even analysis multiples. Additionally, we performed a sensitivity analysis that tested the outer bound of our expected remaining cumulative net loss to assign our 'AA (sf)' rating. While the implied break-even multiples for the rating are robust, we believe that further maturation of both the default and recovery curves are warranted to consider a rating beyond the 'AA (sf)' threshold.

We will continue to monitor the performance of the student loan receivables backing these transactions relative to our ratings and the trust's available credit enhancement.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction, May 29, 2015
- Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A

Rating Raised On NorthStar Education Finance Inc.'s Series 2011-A-L To 'AA (sf)' From 'A (sf)'

Nonmonetary EOD, March 2, 2015

- Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Methodology And Assumptions For U.S. Private Student Loan ABS Credit Analysis, Feb. 13, 2013
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- U.S. Interest Rate Assumptions Revised For May 2012 And Thereafter, April 30, 2012
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009
- Legal Criteria: Legal Criteria For U.S. Structured Finance Transactions: Special-Purpose Entities, Oct. 1, 2006
- Legal Criteria For U.S. Structured Finance Transactions: Criteria Related To Asset-Backed Securities, Oct. 1, 2006
- Student Loan Criteria: Evaluating Risk In Student Loan Transactions, Oct. 1, 2004
- Student Loan Criteria: Structural Elements In Student Loan Transactions, Oct. 1, 2004
- Student Loan Criteria: Rating Methodology For Student Loan Transactions, Oct. 1, 2004

Related Research

- NorthStar Education Finance Inc.'s Series 2011-A-L 'A (sf)' Rating Placed On CreditWatch Positive, Sept. 3, 2015
- Economic Research: U.S. Economic Forecast: The Terrible Twos, June 26, 2015
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- The Rating Process For Student Loan Transactions, Oct. 1, 2004

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?", March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Counterparty Risk Framework Methodology And Assumptions," June 25, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.